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THE GOVERNOR'S COUNCIL ON ECONOMIC DEVELOPMENT

REPORT OF RECOMMENDATIONS

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THE GOVERNOR'S COUNCIL
ON ECONOMIC DEVELOPMENT
REPORT OF RECOMMENDATIONS

Submitted to:

The Honorable Ted Schwinden
Governor of Montana

December 1984

December 15, 1984

The Honorable Ted Schwinden
Governor of Montana
State Capitol
Helena, MT 59620

Dear Governor Schwinden:

On behalf of the Governor's Council on Economic Development, it is my pleasure to submit to you this Report of Recommendations. These recommendations represent hard work and thorough analysis on the part of the Council in six major areas of the Montana economy. Also included is a summary describing recommendations which the Council has acted upon, and research projects which the Council sponsored or participated in during the past year.

The Council is looking forward to the coming year. Among the issues which we plan to address are education, organized labor, and the role of human resources in Montana's economic development.

Serving as chairman of the Council has been a genuine privilege for me. I have enjoyed working closely with the Council and I want to thank each member for the time and effort they have devoted to this endeavor. Montana is indeed fortunate to have this dedicated group of people. I also wish to thank the Council staff for their commitment. Many groups and individuals took the time to present their viewpoints to the Council. Without this input, our perception of the state's economy would have been incomplete. The entire Council is grateful to all those who made their views known.

This past year has been a most rewarding experience. On behalf of the Governor's Council on Economic Development, I wish to thank you for the privilege of serving Montana in this endeavor.

Sincerely,



W.E. Schreiber, Chairman
Governor's Council on Economic Development

WES/gp

ACKNOWLEDGEMENTS

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SECTION I

EXECUTIVE SUMMARY

A. Background:

The late 1970s and early 1980s brought serious economic problems to both the nation and Montana. For many of the state's businesses and industries, these years were a period of hardship, uncertainty and transition. Although the national situation began to improve in 1983, Montana's economy has continued to lag behind the rest of the nation.

The role of the Governor's Council on Economic Development has not only been to assist in creating a better operating climate for business and industry, but also to determine what forces and dynamics play a key role in Montana's economy. The primary intent of the Council's efforts is to create jobs, benefit all sizes of business and industry, and maintain a clean and healthful environment.

B. The Governor's Council on Economic Development:

Governor Ted Schwinden, on December 12, 1983, created the Governor's Council on Economic Development in accordance with House Bill 1, which was passed by the 48th Legislature. The Governor specifically charged the Council with evaluating economic development problems and programs in Montana. The Council is also charged with the preparation of a biennial economic conditions report, and is expected to furnish advice, gather

information and make recommendations to the Governor and the Legislature on economic development issues.

Council members were chosen from the following sectors of the state's economy: natural resources, small business, tourism, agriculture, education, conservation, public interest, financial, professional, economic development and organized labor. The 20-member Council was formed with 10 members from each congressional district.

The Council met on 10 occasions in 1983-84 and developed recommendations in six areas of the state's economy. These areas were business taxation, tourism, agriculture, natural resources, business assistance, and transportation. The recommendations were based on information presented to the Council by a variety of groups and people involved with these economic sectors and issues.

Subcommittees were established within the Council to assist in developing recommendations. The Council members chose the subcommittee or subcommittees on which they wanted to serve. Recommendations originated in the subcommittees and were then presented to the full Council for adoption or rejection.

C. Research:

In addition to developing specific recommendations for the Governor and the Legislature, the Council sponsored research in several sectors of the economy.

A study of the Montana travel industry was sponsored jointly by the Council and the Montana Department of Commerce. The study was performed by the Bureau of Business and Economic Research at the University of Montana and indicated that in the years 1979 to 1983, tourism was a growth industry in Montana. Travel expenditures, labor income and employment all experienced significant increases in this four-year period.

An agricultural debt survey sponsored by the Council and performed by the Montana Department of Agriculture shows alarming implications for this sector of the state's economy. Data collected in the survey shows that with current trends in farm income and expenses, only 55 percent of Montana's farmers and ranchers will be able to stay in business over five years.

The Council committed a portion of its research budget to a feasibility study for a beef processing facility. Matching funds are necessary from several agricultural groups before the study can be undertaken.

The Council sponsored a study of the market for Montana and Wyoming coal to the year 2000. This analysis is being performed by Professors Arnold Silverman and John Duffield of the University of Montana. The impact of severance taxes, reclamation laws and federal air pollution legislation will be addressed in this study. Final results are expected in January 1985.

In dealing with the issue of coal, the Council organized a meeting between representatives of Westmoreland Resources, Inc., the Montana Department of Revenue, and the Office of Budget and Program Planning. This meeting was held to determine current effective tax rates for Montana and Wyoming coal and to gather common information upon which coal industry and government officials can agree.

SECTION II

BUSINESS TAXATION RECOMMENDATIONS

A. Maintaining the Status Quo on Ethanol Subsidies:

(1) Situation:

Current tax subsidies for ethanol production in Montana are 70 cents a gallon until 1985, 50 cents a gallon until 1986, and 30 cents a gallon until 1989. The question of extending the present subsidy was considered by the Economic Development Council.

(2) Recommendation:

The Council supports the subsidies of the ethanol industry as are currently legislated.

(3) Potential Economic Development Impact and Other Related Impacts:

The Council feels that this recommendation will encourage demand for more Montana grain.

B. Establishment of Local Option Taxation:

(1) Situation:

Many Montana communities face the problem of keeping their existing infrastructure up to standard and meeting other urgent community needs. While communities are required to maintain a broad range of

community services and facilities, they are often unable to raise necessary funds through present sources.

(2) Recommendation:

The Economic Development Council recommends that legislation allow communities (local governments) to tailor their tax policies to their specific needs (including the offset or replacement of a portion or portions of their respective property tax mill levies) and resources by granting the authority for local option tax, with local voter approval.

(3) Potential Economic Development Impact and Other Related Impacts:

This additional revenue would aid impacted areas in making needed infrastructure improvements and in meeting other community needs.

C. Retention of the Unitary Tax:

(1) Situation:

Montana is one of eleven states with a worldwide unitary tax. The State of Montana's unitary tax collects \$4 to \$10 million annually from corporations doing business in Montana.

This method of taxation is applied to national and worldwide corporations doing business in Montana on the basis of their level of activity in Montana, compared with their worldwide revenues determined on a formula basis.

The State of Montana, Montana businesses and universities are working to attract foreign investment to Montana in tourism, manufacturing, processing, and new product R & D.

There is a perception on behalf of some individuals and groups that the unitary method of taxation as applied to foreign corporations impedes foreign expansion and investment because of the potential for inequitable application of the tax, and because this method of taxation requires foreign corporations to open their books to the state revenue agencies.

One of the best sources of foreign investment are Japanese companies. Many Japanese companies and the Kaidanren, the official business organization in Japan, have adopted a policy that they will not consider investing in any state that has a unitary tax.

In the absence of unitary taxation, foreign and domestic corporations operating in Montana could potentially transfer profits to states which have lower taxes, diminishing their tax liability in Montana.

The Governor's Council on Economic Development is concerned that to amend or repeal the unitary tax would shift the tax burden to local Montana businesses.

(2) Recommendation:

The Economic Development Council wishes to encourage multi-state and multi-national companies to establish businesses in Montana. In order to ensure equity as provided by current laws, these multi-state and multi-national concerns will be given the same advantages and treatment as our domestic businesses.

The Council favors the retention of the unitary tax applied on a worldwide basis. The unitary tax, as now being administered, is equitable to domestic, multi-state and multi-national companies. In order to encourage business development in Montana, we recommend that this equitable basis be maintained.

(3) Potential Economic Development Impact and Other Related Impacts:

- a. Equitable application of laws.
- b. Enhancement of industrial recruitment.
- c. Long-term stability.

D. Retention of Montana's New Business Tax Incentives:

(1) Situation:

There has been concern regarding the effectiveness of Montana's new business tax incentives. The question of whether to continue these incentives in the future has been raised.

(2) Recommendation:

The Council supports the maintenance of current levels of new business tax incentives and encourages the Department of Revenue to vigorously promote these incentives.

(3) Potential Economic Development Impact and Other Related Impacts:

The retention of these incentives will continue to encourage new business investments.

SECTION III

TOURISM RECOMMENDATIONS

A. Establishment of Visitor Information Centers:

(1) Description of Problem or Situation:

There are no state-operated visitor information centers on the interstate highway system in Montana. In order to better inform travelers of additional services available in Montana, visitor information centers are critical.

(2) Recommendation:

That the Department of Highways and the Department of Commerce in a joint cooperation, research the Federal Interstate Highway fund for funds that can be identified for Visitor Information Centers.

Recommendation is for pursuing construction of six visitor information centers. These would be permanent structures owned by the State of Montana.

(3) Potential Economic Development Impact and Other Related Impacts:

Providing tourists with more information about available services and attractions will help retain visitors longer.

(4) Implementation:

Department of Highways and Commerce to research the availability of funds and capital expense along with federal funds for construction of centers.

B. Spending Authority Increase for the Montana Promotion Division:

(1) Situation:

Currently Montana ranks 37th in the nation for tourism promotion. This is a highly competitive industry and for Montana to show a more favorable image, more dollars are necessary to create a positive impression of what Montana has to offer.

In the years 1979 to 1983, tourism and heavy construction were the only basic industries which grew in Montana. Both travel expenditures and labor income generated by the travel industry increased by nine percent in this period. The number of travel-related jobs increased by 2,440 or 14 percent during these four years, according to the Bureau of Business and Economic Research's publication, The Montana Travel Industry, 1983 (Univ. of Montana: October 1984).

(2) Recommendations:

The Council applauds the cooperation between the tourism industry and the Montana Promotion Division. The Council recommends that the spending authority for the Montana Promotion Division be increased

from the current \$1.2 million to \$1.5 million annually, through private sector contributions.

(3) Potential Economic Development Impact and Other Related Impacts:

The increased budget would be used to promote convention solicitation. This area of promotion has virtually not been done in Montana and would be an expansion of the current promotion efforts to attract larger groups to our state.

(4) Implementation:

Legislation is necessary for an increase in spending authority.

C. Designation of Montana as "Gateway to the Olympics":

(1) Situation:

The 1988 Winter Olympics will be held in Calgary, Alberta.

Montana's proximity to Alberta will make our state a gateway to the 1988 Olympic games.

(2) Recommendation:

The Council recommends that a coalition of winter sports entities in cooperation with a steering committee, work with the United States Olympic Committee and the Canadian Olympic Committee in designating Montana as the "Gateway to the Olympics".

(3) Potential Economic Development Impact and Other Related Impacts:

Montana will benefit from visitors traveling to pre-Olympic training sites.

(4) Implementation:

The Montana Promotion Division will be a key coordinator in organizing the steering committee and in creating a positive image for Montana during the Olympics.

D. Establishment of Hospitality Training:

(1) Situation:

Formalized hospitality training has been nonexistent in Montana. In order to increase visitor retention, we must educate employers and employees who serve the traveling public about Montana's many attractions.

(2) Recommendation:

The Council recommends public and private cooperation in educational programs throughout the state which will encourage hospitality training. It is believed that this type of training would work particularly well in the private promotion area.

(3) Potential Economic Development Impact and Other Related Impacts:

By increasing the duration of tourist stays, additional dollars will be left in Montana.

(4) Implementation:

Public and private sector participation to design an educational program for winter and summer hospitality training.

SECTION IV

AGRICULTURE RECOMMENDATIONS

A. Establishment of an Emergency Program for Struggling Agriculture

Operators:

(1) Situation:

The net income of agricultural operators is alarmingly low. It has averaged about \$3,000 in recent years and was down to \$1,500 in 1983. Common sense indicates that the state has a very troubled basic industry, i.e. agriculture. Agricultural operators are business persons and as forces over which they have little control close in on them, making survival in the business difficult, their skills as managers become critically important.

(2) Recommendation:

We recommend the Legislature provide funding to the Department of Agriculture for an emergency program to target and serve struggling operators by providing financial management counseling, coordinating cooperative efforts to lower overhead (e.g. sharing equipment), and helping set up community support groups where the farm finance problem is severe. As part of this program, an emergency hot-line for troubled operators should be installed in the Montana Department of Agriculture and its existence widely publicized. Legislators and

the Montana Department of Agriculture may want to review similar programs recently established in Minnesota, North Dakota and Iowa.

(3) Potential Economic Development Impact and Other Related Impacts:

The effort should help minimize the number of farm foreclosures in the next few years. It should help keep Montana agricultural land in the hands of owner-operators who live in and contribute to rural communities, as opposed to increasing the amount of speculators in agriculture.

(4) Implementation:

Legislation and appropriations may be necessary to provide these services. The Department of Agriculture has begun a pilot program to assess the feasibility and necessity of these services. Information from this program will be available to the 1985 Legislature. Existing midwestern initiatives may provide good models and an indication of costs. The Council believes these measures should complement the services currently being provided by the Montana Cooperative Extension Service.

B. Establishment of an Agricultural Products Marketing Program:

(1) Situation:

The existence of many decentralized operators and a diversity of agricultural products is generally an asset. This can be a handicap, however, in promoting and marketing Montana agricultural products and/or developing sufficient marketing capabilities to

begin in-state processing or finishing of agricultural products. Although wheat, beef and pork producers have organized marketing programs, smaller commodity groups could benefit greatly from some coordinated state agricultural products marketing services.

(2) Recommendations:

We recommend the administration include an agricultural products marketing program in its budget and that its funding be approved by the Legislature. This marketing effort should not overlook the opportunity to substitute Montana products for out-of-state imports (e.g. dairy good, produce, poultry, etc.).

The Council encourages the Department of Agriculture and the Department of Commerce to work together in promoting the state's agricultural products nationally and worldwide.

(3) Potential Economic Development Impact and Other Related Impacts:

Marketing development is an essential activity to build an in-state processing capacity.

(4) Implementation:

The Department of Agriculture must prepare a budget and program for submission to the 1985 Legislature.

C. Continuation of the Agricultural Debt Survey:

(1) Situation:

The Governor's Council on Economic Development funded a survey, which was performed by the Montana Department of Agriculture, to determine the status of agricultural producers' debts. This survey has shown alarming implications for the financial solvency of the agricultural sector. Continued monitoring of this situation is important so that agricultural leaders and Montana officials can help farmers out of this crisis and stabilize the the agricultural economy.

(2) Recommendation:

The Council recommends that the agricultural debt survey be continued on a semi-annual basis for a two-year period.

(3) Potential Economic Development Impact and Other Related Impacts:

If the net income in agriculture is any indication, we could be facing serious ripple effects throughout the economy. For example, the offer by Consolidated Farms to buy out many over-extended owner-operators may have consequences on communities, local and state governments.

(4) Implementation:

Approximate cost of each survey is \$3,000.

D Establishment of a Program to Combat Noxious Weeds:

(1) Situation:

Presently, noxious weeds are costing Montana's farmers and ranchers millions of dollars in net income each year. Forest and mountain areas are also being covered by these weeds. With uplands having such infestations, it has reached a point where they are creating an adverse economic impact on entire communities in the state.

(2) Recommendation:

- a. A state-wide weed coordinator be hired by the Department of Agriculture to work with county and federal agencies and private land owners to develop multi-district and drainage-wide weed control plans.
- b. Proper funding be provided to the state for this position.
- c. Counties be provided adequate funds to hire certified weed supervisors.
- d. Federal agencies provide funds, resources and cooperation to control weeds on land they oversee. These agencies include the Soil Conservation Service, the Forest Service, the Bureau of Land Management and others directly involved in land management.

(3) Potential Economic Development Impact and Other Related Impacts:

The productivity of Montana's land is of benefit to all its citizens: the recreationist, the hunter, the businessperson, not just the rancher and farmer. Long-range control of this problem will provide greater economic productivity from the land.

(4) Implementation:

- a. Request that the legislature provide funding for a state-wide weed coordinator and a statewide weed program.
- b. The Council further recommends that the legislature change the state law to allow counties to assess a five-mill levy for weed control. Presently, the limit is two mills.

E. Legislation to Encourage Sound Soil Conservation Practices:

(1) Situation:

The conversion of large acreages of range land to crop land has caused concern among many Montanans. The long-term effect of this practice may be detrimental not only to the land, but also to the local economies where this land use change is occurring. Information presented to the Council indicates that federal tax incentives (capital gains, investment credit, accelerated depreciation and depreciation recapture) are providing a major incentive for this land conversion. If this conversion is being done on a speculative basis due to present tax laws, rather than changes in agricultural technology and environmental factors (soil and rainfall), highly erodible lands could be permanently damaged. Communities that have had a stable economy from cattle and sheep production may find their economic base destroyed if the land conversion fails. In addition, the state or federal government may face the expense of reclaiming the land back into rangeland.

(2) Recommendation:

The Council will work with the Governor, Legislature and Congressional delegation to amend federal and state tax laws to encourage sound soil conservation practices.

(3) Implementation:

Montana's Congressional delegation sponsor or support legislation that:

- a. Extends the length of time that rangeland converted to cropland must be held before capital gains can be taken on the sale.
- b. Converting rangeland to cropland be defined as treating or conditioning the land which will prohibit the initial plow-up costs from being deducted as an operating expense.
- c. Limit the use of agricultural expenses offsetting income earned from other sources to \$25,000 (the national median income).

F. Expansion of the Triangle District Saline Seep Project:

(1) Situation:

Saline seep represents a serious threat to agricultural lands in Montana. The problem causes damage to soils and leads to declining ground and surface water quality. Over 280,000 acres of small grain crop production in the state are affected by saline seep. This figure is increasing at a rate of 10 percent annually. Based on a 30-bushel per acre average, 4.2 million bushels of grain are lost each year in the state.

The Triangle Conservation District was formed in 1979 to begin a program to combat saline seep. The program has been successful and has expanded into areas outside the Triangle District. Currently all funding sources for the program have been exhausted. As financial resources have dwindled, farmers have supplied up to one-third of the funds for the program.

(2) Recommendation:

The Council recommends that the Department of Natural Resources and Conservation list funding for the Triangle Conservation District Project as a top priority for the Natural Resource Legacy Fund. The Triangle Conservation District plans to expand its services from 10 counties to 33 counties. This expansion is expected to cost \$1,007,000 over a two-year period; \$200,000 of this amount will be paid by the participating farmers. The Council further recommends that the Legislature give a top priority in funding the remaining \$807,000 from the Natural Resource Legacy Fund and give the Department of Natural Resources and Conservation the ongoing responsibility of carrying on a long-term stable program.

(3) Potential Economic Development Impact and Other Related Impacts:

Prime agricultural land which is taken out of production translates into severe economic losses not only for producers but for communities and state government as well. According to the Montana Cooperative Extension Service, the direct loss to farmers due to saline seep is estimated at \$5,000,600 annually. Communities which are economically dependent upon agriculture lose an estimated

SECTION V

NATURAL RESOURCES RECOMMENDATIONS

A. Recommendation on Dispersion of Recreation:

(1) Situation:

Montana's outdoor resources are important sources of economic welfare. This is true primarily because they provide Montanans with highly valued opportunities for hunting, fishing, hiking and other forms of outdoor recreation. In addition, however, outdoor resources are one of the main attractions to visitors from outside Montana and hence support the tourist industry. Outdoor resources -- lakes, rivers, trail systems, fish and game, and the like -- are unfortunately readily degradable, since crowding and heavy use tend to reduce the quality of recreational experiences. Some particularly popular areas of Montana have already experienced such degradation. Others are able to support much higher levels of use.

(2) Recommendation:

The Council recommends that agencies of state government make concerted efforts to achieve selective dispersion of outdoor recreation activities.

(3) Potential Economic Development Impact and Other Related Impacts:

The consequences of this dispersion would be to allow Montana's outdoor resources to sustain a higher level of recreation without degradation. This would be a direct source of well-being for Montana residents and would at the same time protect one of the important sources of tourism.

(4) Implementation:

Implementation of this recommendation can be achieved in a number of ways. The Council suggests in particular that the state's tourism programs publicize less heavily used recreational sites and that agencies of state government responsible for these sites complement these efforts with enhanced mapping, signing, maintenance and other management techniques. The goal of these management policies is to match use to carrying capacity.

B. Adoption of a Least-Cost Energy Policy:

(1) Situation:

Despite the widespread availability of cost-effective conservation investment opportunities, conservation potential is substantially under-utilized. From an economic point of view, conservation investments have high implicit yields and society suffers an economic loss if capital resources are diverted from conservation to some lower yield use; say, for example, the construction of a new generating plant. Nevertheless, such diversions occur regularly. This may be so because individuals simply fail to perceive

conservation opportunities, because capital is not available or is thought not to be available, or because electric rates fall short of the costs of generating electricity in new large-scale facilities. In the latter case, individuals will undertake conservation only if it is justified by the electric bills they can subsequently avoid. Society at large, however, should promote all the conservation justified by the new generating costs it can subsequently avoid. If rates fall short of new generating costs, individuals will not conserve enough.

(2) Recommendation:

The State of Montana already provides some tax incentives for energy conservation. These are not sufficient, however, to provide the desired level of conservation. The Council, therefore, recommends that it be the policy of the State of Montana to require energy utilities operating in the state to obtain new energy capacity in the least expensive form possible, including conservation.

(3) Potential Economic Development Impact and Other Related Impacts:

A program of energy conservation would have a variety of positive impacts on the growth of Montana's economy.

- a. Energy costs are clearly one of the factors affecting the desirability of a particular business location. They figure significantly in at least one major national business climate index, and Montana compares favorably with many other states in its level of energy costs. There is ample evidence that one of the least expensive ways in which new energy can be obtained is

through conservation. The Northwest Power Planning Council, in particular, found that conservation in our region is substantially less expensive than large-scale new hydro, thermal or nuclear generation. Reliance on conservation, therefore, is one of the ways in which Montana can retain its favorable energy cost position.

- b. Planning for future energy needs is facilitated by increase reliance on conservation. Conservation investments are small in scale and more rapidly brought on line than a large scale generation project.

As a result, conservation needs can be assessed with shorter-range and more accurate forecasts, and the magnitude of over- or under-investment errors in conservation are likely to be relatively small. By contrast, Montana's recent experience with Colstrip 3 amply illustrates the extremely large investment errors in new generating capacity that can be made on the basis of inaccurate long-term forecasts.

- c. Since the installation of energy conservation measures is a relatively labor-intensive process, it is an employment-creating activity. Moreover, since conservation is a statewide process, this employment impact would be widespread. By contrast, major generation construction projects such as Colstrip typically concentrate employment impacts in small areas.

(4) Implementation:

A policy of least-cost acquisition of energy through conservation can be implemented in a number of ways. For some conservation investments it may be appropriate to require utilities to directly and fully fund investment expenditures, as in the cost of low income housing. In other cases, zero interest loans, repayable under appropriate circumstances, may be more suitable. Implementation of conservation policy should: (a) stress the development of local conservation businesses, and (b) avoid placing the burden of conservation on any particular income group. Within these general guidelines, the Public Service Commission should design specific regulations for public utility acquisition of conservation investments.

C. Establishment of 10-Year Development Strategies for Montana's Natural Resource-Based Industries:

(1) Situation:

- a. Natural resources represent one of Montana's principal economic assets.
- b. Natural resources have provided the economic base for Montana's development.
- c. Montanans are fearful of natural resource development because of our history of natural resource exploitation.
- d. There is a need to identify the role of natural resource industries in Montana's future.

- e. The lack of consensus over natural resource development inhibits public and private sector initiative to develop the state's economy.
- f. The lack of consensus, in part, is a result of the lack of objective, common information about natural resource development and its impacts.
- g. The lack of consensus is also the result of a lack of meaningful, constructive dialogue between interested parties in a non-adversarial situation.
- h. Outside market forces largely determine the profitability of Montana's natural resource industries.

Historically, Montana has had a natural resource-based economy. Agriculture, mining and wood products have provided the impetus for long-term development. These industries will play a major role in determining the economic future of Montana.

We need to develop specific policies and a development strategy for each resource industry. The world economy, of which we are a part, is in transition. We need to assess the short- and long-term impacts of this economic shift on Montana and determine where our potential for new markets, new products and processes are, how we can finance new investment and develop a 10-year strategy for each resource industry.

(2) Recommendation:

A program, centered in the Department of Commerce, drawing on other departments (Natural Resources and Conservation, State Lands and Agriculture), to develop a 10-year development strategy for each of the following sectors:

- Coal;
- Metal and Non-Fuel Minerals;
- Oil and Gas
- Timber;
- Agriculture; and
- Tourism and Travel

Water and wildlife will be regarded as inherent considerations in all of these sectors.

The plans should be prepared by task forces representing all interested constituencies; adequate independent professional support should be funded by the legislature so that the task forces may begin operating by July 1, 1985. A member of the Governor's Council on Economic Development should chair each task force to ensure that the Council's concerns are adequately addressed.

The reports should identify:

- a. The economic history of the sector;
- b. The relationship of the sector to the rest of Montana's economy;
- c. Present economic condition of the sector;

- d. Opportunities and constraints; and
- e. Projected levels of development under different scenarios.

The reports should place emphasis on:

- a. Identifying existing and potential national and international markets;
 - b. Application of state-of-the-art production and processing techniques;
 - c. Production and transportation costs;
 - d. Impact of state and national regulatory and tax policy;
 - e. Impact of industry ownership patterns on development; and
 - f. Social, environmental, community and economic impacts.
- (3) Potential Economic Development Impact and Other Related Impacts:
- Montana's economy is growing slowly. We need to rebuild our economic base in order to maintain a healthy, diversified economy which provides entrepreneurial opportunities and good paying jobs, allowing for support of local government, public services, education, etc.

(4) Implementation:

Unless we can initiate bold action from within Montana to aggressively rebuild our economy, our largest export during the 1980s and 1990s will be people, primarily between the ages of 25 and 45, who will have to leave to make a living. Unless we begin aggressively rebuilding our economic base and replacing the high paying jobs that have been lost, our economy will deteriorate, decreasing the tax base which will further decrease funding for

government services, education, public works, etc. Estimated cost of the development strategies is \$400,000. Cost-sharing plans between the state and natural resource industries will be investigated.

D. Adoption of Cost-Effective Conservation Standards:

(1) Situation:

Most new electric generating capacity is much more expensive than historical supplies have been. One source, clearly identified as the least expensive, is building energy-efficient buildings. The Northwest Power Planning Council estimates that the region would save 300 to 1,500 megawatts of electricity if all the homes and commercial buildings built between 1980 and 2000 meet model conservation standards adopted by the Council.

State and local governing bodies have been asked to adopt building efficiency standards that are cost-effective and economically feasible. The Bonneville Power Administration may apply a surcharge of 10 to 50 percent of electricity in jurisdictions that do not adopt the standards.

(2) Recommendation:

The Council recommends the state adopt cost-effective conservation standards for new residential and commercial structures built after January 1986.

(3) Potential Economic Development Impact and Other Related Impacts:

The standards will help keep the cost of electricity down. It will also mean more disposable income to be spent in communities because less is going for energy costs.

(4) Implementation:

Legislation would have to pass the 1985 Legislature or, as an alternative, appropriate executive actions be adopted.

E. Implementation of the Natural Heritage Program and the Natural Resource Information System:

(1) Situation:

The collection and processing of natural resource data is an expensive but necessary first step in resource development. The costs associated with data collection and processing can be measured in the dollars spent to obtain data but also in terms of the time delays that occur because of inadequate or disputed data. The costs are further multiplied when there is a duplication of effort between and even within agencies. The latter occurs when a region is studied more than once or where there is overlap of regions that are studied for different projects. It has been estimated that basic environmental data has been collected over nearly 80 percent of the state but very little of these data are available for future needs. Each study has been treated as a separate project without provisions for data storage or retrieval beyond the life of the project.

A second, related problem is the lack of information on rare flora and fauna and natural ecosystems worthy of protection. The lack of information in this category has often caused disputes and delays in natural resource development. A systematic collection and evaluation of these data would be valuable for early planning of projects and aid the state in protecting especially valued natural resources.

The critical importance of each of these problems will increase as resource development increases in Montana.

(2) Recommendation:

A Natural Resource Advisory Committee established by the 1983 Legislature has recommended a two-part program.

- a. A Natural Resource Information System would be established to organize the state agency natural resource data. The initial objectives of this system would be as follows:
 - Identify and catalog the natural resource data files.
 - Establish a referral system to aid users in locating natural resource data.
 - Recommend improvements in methods of data collection and storage that would minimize duplication and improve access.

The system will not attempt to develop a single, central data file. But if a central file is eventually considered economically and technically feasible, this first organizational step will be beneficial.

- b. Implement a Natural Heritage Program as provided by the 1983 Legislature. The Natural Heritage Program would be organized according to the time-tested procedure now operating in more than 30 states. A professional staff would be hired to organize existing data on rare and unique natural resources. These data would be updated as needed and gaps in the data base would be identified and filled.

This is a continuing program that would serve as a basic information source on flora, fauna and natural ecosystems.

The Economic Development Council supports the recommendation of the Natural Resources Advisory Committee for the establishment of this two-part program. The Council further recommends that a system of user fees be established for services rendered and to provide revenue for the Natural Resource Information System.

(3) Potential Economic Development Impact and Other Related Impacts:

The goal of the two programs is to make reliable information about Montana natural resources easily available in Montana. This should save time and money in several ways:

- It could head off conflicts over environmental impacts at an early stage of resource development, before heavy investments close off options;

- It could help coordinate duplicate data gatherings and studies, such as when two agencies look at a resource for different purposes;
- It could ensure that decision-makers have the best available information when they consider resource developments, and that the information comes at the lowest cost and as quickly as possible;
- It could identify gaps in our resource data, perhaps allowing well-planned research to efficiently close the gaps and avoiding expensive "brush-fire" studies after development have been proposed; and
- It will not require major changes in existing agency operations but should identify ways in which interagency coordination and efficiency can be improved.

(4) Implementation:

Proposed Budget, 1985 - 1987 Biennium:

FY 1985-86	\$254,230
FY 1986-87	<u>218,409</u>
Total Biennium	\$472,639

These costs would be reduced by any grant or private funds received. For example, an application will be made to the Nature Conservancy for approximately \$68,000 for the first biennium.

SECTION VI

BUSINESS ASSISTANCE RECOMMENDATIONS

A. Establishment of a Program for Research on the Montana Economy:

(1) Situation:

In designing economic development policies for Montana, we need some reasonably consistent and correct notion about how the state's economy grows. Our current models of the Montana economy are not completely satisfactory in this regard.

The predominant model of the Montana economy is the export base model. According to this view, Montana grows by exporting more. Income generated by exports creates demand for services and other "secondary" activities. This emphasis on exports is reflected, among other ways, in our rules for investing economic development funds and our interest in traditional extractive industries and tourism. Although the export base model deserves recommendation, it inadequately explains the fact that the "secondary" industries have been much more dynamic in recent years than the "primary" or "export" industries. It appears that the Montana economy has internal as well as external sources of growth.

Another model of the Montana economy which is at least implicit in public policy discussions emphasizes not external demand for our products, but internal supply of productive resources, especially capital and technology. It is the absence of the latter which are held responsible for Montana's slow growth. While this notion again is appealing, it seems to contradict the common observation that capital and technology are extremely mobile and can be obtained easily on national and international markets as long as there is a profitable opportunity to use them.

In addition to the foregoing, a number of theories about Montana's growth exists, emphasizing such diverse elements as transportation costs, regulatory environment, business climate, and so forth. Suffice it to say, we are not yet in agreement about the key factors in Montana's growth and how to promote more growth through public policy.

(2) Recommendation:

The Council therefore recommends the Legislature appropriate \$60,000 for a research budget to address these issues. Priority in the expenditure of these funds should be to address particular issues in the growth of the state's economy, rather than to construct new general models. Examples of particular questions to address are:

- a. In what sectors of the Montana economy is there evidence of a lack of competitive access to national markets for technology?

- b. In what sectors of Montana's economy is there evidence of a lack of competitive access to state and national capital markets?
- c. Are there industries in the derivative sector of the economy, the growth of which is independent of primary sector growth?
- d. What effect does the business climate have on economic growth?

The recommended budget is \$60,000.

(3) Potential Economic Development Impact and Other Related Impacts:

The implications of having acceptable answers to these questions are clear. In particular, they would permit state policies to be targeted on key factors in promoting development.

(4) Implementation:

Implementation of this program would be a joint effort of the Council, state government, the universities, and interested private researchers.

B. Establishment of International Trade as a Major Economic Development Policy:

(1) Situation:

International trade (exports, joint venture and direct foreign investments) offers Montanans one of the best opportunities for expanding present businesses and developing new businesses.

(2) Purpose:

To assist Montanans in identifying market opportunities for international markets and learning how to deal with the specifics of international trade and how to structure joint ventures.

(3) Recommendation:

- a. That the Governor and the legislature support international trade as a major economic development policy for Montana including: exports; joint venture and direct foreign investment in manufacturing and processing plants and recreation facilities.
- b. That the Commerce Department, the Universities, and the Montana Ambassadors, through the Build Montana Programs, take the lead in promoting international trade, educating business people in Montana about the specifics of exporting, joint ventures and foreign investment.
- c. That the Administration and the legislature support more substantial international marketing programs in the Departments of Commerce and Agriculture.

(4) Potential Economic Development Impact and Other Related Impacts:

This decade we want to diversify Montana's economy, to increase processing of our agricultural products industries; to increase forest products manufacturing; and to increase processing in our mineral and energy industries as well as develop new

technology-based industries; expand our travel industry, particularly to develop destination resorts for national and international travelers. International trade including exporting, joint venture and direct foreign investment offers us one of the best opportunities to achieve these goals.

Montana has world-scale agricultural, timber, mineral, energy and water resources. We have a growing manufacturing industry, a potentially world-class tourist industry, and a first-rate university system.

We can develop trade and investment relationships with international companies, use our vast resource base and high quality environment joined with their world-wide information, organizational, financing, marketing and communication capacity to create mutually beneficial and profitable projects that we may not otherwise be able to create in Montana.

(5) Implementation:

- a. The Department of Commerce and the Department of Agriculture provide technical and marketing assistance and market information referral.
- b. International trade seminars - The Department of Commerce, University Center for Business and Management Development and others.

- c. Assistance from the Montana Ambassadors, the Mansfield Center, the Montana International Trade Commission and others.

C. Establishment of a Business Assistance Program for Women:

(1) Problem:

In Montana, as throughout the nation, the earnings and employment opportunities of women continue to be inferior to those of men. The following facts illustrate the employment situation of women:

- a. Women's employment is very heavily concentrated in the trade and service sectors of the economy, and the occupations associated with them. These tend to be relatively low-paying industries.
- b. Even after taking account of the industries in which women work, women's earnings fall substantially (on the order of 50 percent) below men's.
- c. In most basic industries in Montana (except agriculture) the gap between women's earnings and men's has widened since 1970. In service, trade and government employment the gap has narrowed, and there is evidence that women have moved into more highly paid occupations within these industries.

- d. While many women in Montana own businesses, the net income of these businesses is significantly lower than those owned by men (52 percent in 1980).
- e. Women in business appear to face special problems of capital access, training and awareness of state policies and services.
- f. Despite the foregoing, little data is available on a regular, periodic basis about the economic status of women and the businesses they own.

(2) Recommendation:

The Council, therefore, recommends:

- a. The Department of Commerce in conjunction with other agencies annually collect, publish and make available data on women-owned businesses in Montana and develop and distribute a questionnaire to identify operating status, needs and concerns of women-owned businesses.
- b. The Department of Commerce establish a women-owned business development program to provide:
 - Technical assistance;
 - Promotion of cooperative marketing and distribution;
 - Education and training;
 - Outreach to ensure that women are aware of all available financial resources and educated on how to apply for and/or

use all programs (e.g., Small Business Hotline, Purchasing Division workshops);

- Education to Montana bankers and Community Development Corporations to encourage them to become more informed and aware of women's business contributions and more receptive to women's loan applications.

- c. Economic development policies place appropriate emphasis on service and retail sector development in light of its importance for women's entrepreneurship activities and occupational mobility.

(3) Potential Economic Development Impact on Other Related Impacts:

The recommendations are expected to address in part all the issues raised in Part 1.

(4) Implementation:

Recommendations 1 and 2 would be directly implemented by the Department of Commerce. Recommendation 3 would be implemented by all the agencies concerned with development programs.

D. Funding the Montana Economic Development Board's Guarantee Program:

(1) Problem:

The Montana Economic Development Board (MEDB) is authorized by statute to "guarantee" industrial development bonds that it issues or are issued by a city, town or county, but the 1983 Legislature

did not clearly authorize that the Board could use the In-State Investment Fund (Coal Tax Trust Funds) to back the Board's guarantee of industrial development bonds.

Such a funded guarantee of the Board's "Composite IDB Program" would greatly strengthen the program and provide lower interest rates to businesses who participate in the program.

A guarantee fund equal to 10 percent of outstanding bonds would be sufficient to increase the credit rating of the bonds. For each dollar of coal tax funds pledged, \$10 of business loans could be financed by the selling of composite bonds. This leveraging of the instate investment fund would increase the number of businesses that would benefit from the fund.

At least 15 states have a similar program for guaranteeing industrial development bonds.

(2) Recommendation:

The MEDB should be authorized by law to use the instate investment fund to guarantee industrial revenue development bonds. Use of coal tax funds to guarantee composite IDB bonds will greatly strengthen the credit of IDB's, make them more attractive to the bond market and, therefore, provide lower interest rates to small businesses participating in the program.

(3) Potential Economic Development Impact:

Composite tax-exempt industrial development bonds are an important source of long-term, fixed-rate capital for small Montana businesses. Without a funded guarantee, the estimated interest rate to small businesses is between 12.25 percent and 12.75 percent. This rate could probably be reduced by 2 percent if the Board's guarantee were funded.

(4) Implementation:

Legislation clearly authorizing the MEDB to pledge a portion of the In-State Investment Fund to guarantee industrial development bonds needs to be adopted.

E. Assistance to Local Development Corporations:

(1) Situation:

Local Development Corporations play an important role in Montana's economy by attracting new businesses. Many Local Development Corporations, particularly those in smaller communities, are staffed and funded by members of the organization. These members are generally businessmen and women who provide their services to the organization during off hours at no expense. Oftentimes these people have received no training in local development skills.

(2) Recommendation:

The Economic Development Council recommends that the Montana Department of Commerce:

- a. Provide additional technical assistance to Local Development Corporations. Particularly helpful would be evening training sessions for LDC volunteers.
 - b. Investigate sources of state funding for Local Development Corporations.
 - c. Prepare a monthly economic development newsletter to be distributed statewide.
- (3) Potential Economic Development Impact and Other Related Impacts:
The Council believes that these forms of assistance would enhance the Local Development Corporations' capabilities and increase the effectiveness of a vital instrument in the state's economy.

SECTION VI

TRANSPORTATION RECOMMENDATIONS

A. Establishment of Abandonment Impact Trust Fund:

(1) Situation:

Since the passage of the Staggers Act in 1980, the railroads have considerable discretion in abandoning lines they feel are not economically beneficial to them. Some of these lines, because of highway and socioeconomic impacts, are vital to the future of Montana's Transportation System.

(2) Recommendation:

If local shipping associations wish to acquire and operate a branch line, low-interest loans are essential for a successful operation. Federal funding fails to meet this demand. A state program is needed to supplement federal funds.

The Council proposes that a \$15 million rail account be established, with interest from this account providing money for rail planning, administration, operation, acquisition, rehabilitation and construction of priority rail lines within the state. Additionally, the Council recommends the retention of transportation easements.

(3) Potential Economic Development Impacts and Other Related Impacts:

- a. Keep Montana's products competitive in the marketplace. Rail is the most efficient means of moving bulk commodities.
- b. Reduces highway impacts caused by increased truck traffic.
- c. Rapidly deteriorating highways create a negative image for tourism and increase safety hazards for all users.
- d. Reduces negative socioeconomic impacts to communities dependent on branch lines.
- e. A recent Montana agricultural finance survey projects that under current conditions, 45 percent of the state's farmers will be unable to remain in business for five years. The loss of branch lines and higher transportation costs will accelerate this decline in farm operations. Branch line abandonment combined with an increase in the demand for rail services could make this situation even worse. Freight rates could increase dramatically while services to small shippers are reduced.

(4) Implementation:

Request the legislature to pass a program that will provide \$15 million in state monies to supplement the federal monies for local rail service assistance.

B. Changes in the Staggers Act:

(1) Situation:

The Staggers Act of 1980 was passed by Congress to help ensure the economic recovery and the future viability of the railroad industry. The Act has caused particular concern in Montana because we are basically served by one railroad. Many national organizations such as the Coal Association, Association of Wheat Growers and Association of Utilities are mounting an effort to modify the Act.

(2) Recommendation:

Changes in the Staggers Act need to be made in such areas as:

- a. Definition of Market Dominance
- b. Abandonments
- c. Coal Rate Guidelines
- d. Determination of Revenue Adequacy
- e. Interstate Commerce Commission's Interpretation of the Act
- f. Contract Rates
- g. Rebates
- h. Captive Shippers

(3) Potential Economic Development Impact and Other Related Impacts:

- a. Reduce highway impacts, tax and job losses caused by abandonments;
- b. Enhance Montana's transportation system;
- c. Enhance the competitiveness of our products in the market place.

(4) Implementation:

Work with and support those national associations whose proposed changes will benefit Montana's producers, shippers and transportation system.

C. Endorsement of Feasibility Study for Lumber Transloading Facility:

(1) Situation:

The Montana forest products industry has limited access to market areas that are active. These market areas are generally in the "Sunbelt States" including Texas, California, Arizona, Nevada, Utah and Colorado.

(2) Recommendation:

The Montana Department of Commerce is presently engaged in a feasibility study evaluating transportation options to establish a new trade corridor to the previously mentioned areas. Access to these areas would be created by building a lumber transloading facility at Butte-Silver Bow on the existing Union Pacific branchline.

(3) Potential Economic Development Impact and Other Related Impacts:

Potential economic benefits of such a facility have yet to be substantiated; however, the prospect of accessibility to new market areas for Montana forest products firms have strong positive support from major forest product manufacturers. These producers feel that such a facility would have a positive economic impact on the forest products industry in Montana.

(4) Implementation:

Implementation of this project is hinged to the following steps:

- a. Establish criteria to determine financial mechanism.
- b. Research financing mechanisms; what is available (Economic Development funds, private financing, etc.).
- c. Package the project in accordance with available funding mechanism.
- d. Turn the project over to the Port of Montana Administration for execution.

D. Support for the Seiberling and Deconcini - Baucus Bills:

(1) Situation:

Captive shippers who depend upon a sole rail carrier to move their products to market at times have difficulty in obtaining competitive rates and service.

(2) Recommendation:

The Council supports H.R. 4559 introduced by Representative Seiberling of Ohio, and Senate Bill 2417 introduced by Senator DeConcini of Arizona and Senator Baucus from Montana. These bills would amend the Sherman Act to prohibit a rail carrier from denying

to shippers of certain bulk commodities, with intent to monopolize, use of its track which affords the sole access by rail to such shippers to reach the track of a competing railroad or the destination of shipment. The state legislature should adopt a resolution in support of this legislation.

(3) Potential Economic Development and Impact and Other Related Impacts:

Would help to ensure, through competitive rates and service, that Montana products remain competitive in the market place. The main commodities affected are grain, lumber, and coal.

(4) Implementation:

Support the Seiberling and DeConcini-Baucus Bills and inform Montana's Senate and Congressional Delegations of the Council's support for the bills.

E. Support of Motor Coach Deregulation Fact-Finding Study:

(1) Situation:

Research by the Montana Promotion Division indicates that as many as 15 bus companies avoid Montana because of the inconvenience and cost of obtaining the permits necessary for bringing tours into the state. The revenue which the state could receive from the tours is greater than the revenue it receives from issuance of the permits. Revenue from the permits barely covers the costs of administration.

(2) Recommendation:

The Council supports the fact-finding study currently being conducted by the Montana Promotion Division. The Council will defer any further action until the study is complete and the results analyzed.

SECTION VIII

ENDORSEMENT OF THE FINDINGS OF THE GOVERNOR'S TASK FORCE ON INFRASTRUCTURE AND REQUEST FOR LEGISLATIVE SUPPORT AND FUNDING FOR AN INTERIM COMMISSION ON INFRASTRUCTURE

A. Situation:

Adequate infrastructure is essential to ensure new economic development in Montana. Without adequate local sewer systems, water systems, roads, parking facilities and other types of public facilities (infrastructure), existing businesses may not be able to expand nor can new businesses be attracted to the state. The availability of public works is a major consideration in investment decisions by most companies. The importance of public facilities in industrial location decisions was documented by the U.S. Department of Commerce in a 1973 report. Based on a survey of more than 2,000 firms in over 250 industries, the study found that the availability of water, wastewater treatment facilities and good roads were prerequisites before a community would even be considered as a place where a facility would be located.

As reported in the August 1984 edition of the Concrete Pipe News:

"The high hidden costs of neglecting the nation's roads, for example, were calculated in econometric studies prepared by the Transportation Systems Center in Cambridge,

Massachusetts. According to these studies, if the deterioration of the nation's highways is permitted to continue, the annual costs to the economy by 1995 will include:

- A 3.2 percent loss of Gross National Product;
- An 8 percent increase in the Consumer Price Index;
- A 5.9 percent decline in disposable income;
- A 2.2 percent decline in employment;
- A 2.7 percent decline in labor productivity."

What is the status of and need for public facilities in Montana? The Governor's Task Force on Infrastructure has found, in part:

- A current need of \$100 million for bridges;
- A minimum current need of \$100 million for community water systems;
- A 20-year projected need of \$231 million for wastewater systems;
- A current \$8 billion need to bring local streets and roads up to "acceptable use" standards.

With ever-decreasing local tax bases, Montana's local governments are hard pressed to meet current operating expenses, let alone to take on new expenditure for needed infrastructure. New ways must be found to lower facility costs and to finance needed facilities.

B. Recommendation:

- (1) The Montana Legislature and the Administration should carefully consider the report and findings of the Governor's Task Force on Infrastructure.

- (2) The Governor's Council on Economic Development urges the 1985 Montana Legislature to support and fully fund an Interim Commission on Infrastructure.

C. Potential Economic Development Impact and Other Related Impacts:

- (1) The Council's support of a strong private-government infrastructure program would help to insure that adequate local public facilities will be there when business needs them.
- (2) A failure to recognize the critical role that infrastructure plays in economic development could retard or restrict new business growth. For example, a business can be absolutely prevented by local and state health authorities from expanding an existing site or occupying a new site if the local sewer system or water system cannot handle the additional load. Because a Montana local government operates under complex legal and financial restraints, it could take 2 to 10 years for the local government to upgrade the system.

D. Implementation:

The Infrastructure Task Force has identified many specific recommendations which, if implemented, would help improve the construction or rehabilitation of Montana's local infrastructure. The emphasis of these recommendations and the entire work of the Task Force has been to focus on what can be done at the local, state and private

levels to resolve the problems without employing massive amounts of new tax money from the state.

Some progress on these barriers can be made immediately through the recommendations already identified. However, these recommendations are only the beginning of the changes necessary to removing the barriers that are preventing us from fully addressing our infrastructure needs. A complete renovation of our local government financing and revenue authority must be undertaken. Such a renovation is beyond the time and resources of the current Task Force. Therefore, we strongly urge that an Interim Commission on Infrastructure be created to prepare this renovation for the 1987 session of the legislature.

SECTION IX

ENDORSEMENT OF THE RECOMMENDATION OF THE GOVERNOR'S
COUNCIL ON SCIENCE AND TECHNOLOGY FOR THE
MONTANA ALLIANCE FOR SCIENCE AND TECHNOLOGY

A. Situation:

In the Council's analysis of the Montana economy, several trends have become evident:

- (1) Montana's traditional industries (agriculture, minerals, energy, and forest products) are experiencing economic difficulties which, without dramatic changes in current market conditions, could persist indefinitely.
- (2) As the national and world economies have grown more complex, Montana's reliance upon its traditional, natural resource-based industries has made it increasingly vulnerable to outside market forces.
- (3) Several major "capital gaps" exist in the Montana economy. One such "gap" is the lack of early-stage financing for entrepreneurs. Persons with ideas for new products or services who are looking for investors must often take their project out of state for development or abandon their ideas. Investments for product development

projects can be difficult to obtain because investors are often unfamiliar with the technology or product to be financed. While steps have been taken to fill these "gaps", Montana remains a capital-poor state and more venture capital is needed.

- (4) The present economic situation, uncertainties about future economic conditions and competitive technological efforts taking place worldwide demand that Montana look ahead toward developing new technologies which will aid our existing industries by creating new, higher value products and improving processing techniques which will increase productivity and diversify the state's economy.

B. Recommendation:

In an effort to create and maintain jobs, and remain competitive in the marketplace by bolstering existing industries, the Governor's Council on Economic Development supports the recommendation of the Governor's Council on Science and Technology for the creation of the Montana Alliance for Science and Technology. The Council on Economic Development urges the 1985 Montana Legislature to support and provide \$12 million for the next biennium from the Coal Tax Trust Fund to develop the Alliance.

The Economic Development Council further recommends that the investments of the Alliance be made in a prudent manner and that the formal use of proceeds be clearly defined in each investment.

C. Potential Economic Impact and Other Related Impacts:

- (1) Implementation of this program would lead to the development of new industries and the creation of new jobs. This program would also reinforce Montana's natural resource-based industries and increase employment in these sectors. The Montana Alliance would provide direct benefits to Montanans through technologies targeted toward problems specific to Montana.
- (2) The Alliance would help in providing job opportunities for technically and scientifically trained persons to stay in Montana to use their skills. Currently, many Montanans must leave the state to find jobs in technical or scientific fields. The Alliance would also help persons become trained and reskilled for new employment opportunities.
- (3) The Alliance would also provide opportunities for entrepreneurs who wish to develop new products in Montana. Again, implementation of the program would prevent a drain on the state's human resources.
- (4) The Montana Alliance would encourage a cooperative, progressive atmosphere between business and industry, state government, universities and colleges, and labor.
- (5) Implementation of the Montana Alliance would encourage growth in keeping with the state's commitment to a clean and healthful environment.

D. Implementation:

The Governor's Council on Science and Technology has detailed in its final report the funding, structure, programs, and administration of the Montana Alliance for Science and Technology. The Governor's Council on Economic Development believes significant, positive economic impacts can be brought about through implementation of the Montana Alliance and strongly urges the Legislature to support and fund this program.

APPENDICES

- A. DETERMINATION OF EFFECTIVE TAX RATES FOR MONTANA AND WYOMING COAL
- B. SUBCOMMITTEE PARTICIPANTS, GOVERNOR'S COUNCIL ON ECONOMIC DEVELOPMENT

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APPENDIX A

DETERMINATION OF EFFECTIVE TAX RATES FOR MONTANA AND WYOMING COAL

In August 1984, the Business Taxation Subcommittee of the Governor's Council on Economic Development prepared a recommendation calling for a meeting between officials of the Montana Department of Revenue, the Office of Budget and Program Planning and a representative of a major coal company. The purpose of this meeting was to determine current effective tax rates for Montana and Wyoming coal. These figures, once agreed upon, will be the basis for future Council analysis of coal tax rates. Essentially, these first discussions were an attempt to gather common information upon which industry and government officials could agree.

The following statements represent generalizations from that meeting which are accepted by the Council:

1. The effective rate of Wyoming's subbituminous coal production taxes on fourteen mines in the Northern Powder River Basin, including both state and local production taxes, was approximately 13.8 percent of FOB price for calendar year 1983 production. This rate is based on aggregate production and value information available from the Wyoming Department of Revenue and reflects an average deduction of \$1.75 for crushing and loadout expenses and 25 cents for other deductions allowed in computing coal's value. The effective rate varies from mine to mine and from year

to year depending on coal prices, mill levies and deductions allowed by the state. Mine-specific information is not available from Wyoming state government.

The effective rate of Montana's production taxes on coal mines, including state severance, resource indemnity trust tax and local gross production property taxes, was approximately 24.5 percent of FOB price for subbituminous coal. These effective rates do not, however, reflect the 20,000 ton per year tax exemption allowed Montana coal.

It also should be noted that the 1983 Montana Legislature enacted two important provisions -- one relating to coal royalties and the other relating to the value added to coal by beneficiation. These provisions are intended to prevent any further spread between the effective rates of Wyoming and Montana coal taxes.

2. According to officials in the Wyoming Department of Revenue, recent spot sale coal prices at Wyoming Powder River Basin mines range from \$4.50 to \$8.00 per ton. These numbers are only rough guesses about Wyoming prices. No current spot sale price information has been reported to the Montana Department of Revenue.
3. Reliable information on railroad coal transportation freight rates is difficult to obtain. Contracts between coal and railroad companies are confidential and not available for public scrutiny.

A consensus on these findings was reached by Joe Presley, President, Westmoreland Resources, Inc.; Steve Bender, Research Bureau Chief, Montana Department of Revenue and Jim Oppedahl, Administrative Officer, Office of Budget and Program Planning.

APPENDIX B

SUBCOMMITTEE PARTICIPANTS

GOVERNOR'S COUNCIL ON ECONOMIC DEVELOPMENT

Business Taxation Subcommittee

Sue Ann Dolezal, Chairperson

Carol Daly

Bob Koprivica, Sr.

C. Joseph Presley

Tourism Subcommittee

Jean Mercer, Chairperson

Diane V. Brandt

Lewis S. Robinson, III

Agriculture Subcommittee

William B. Erickson, Chairperson

Kenneth M. Hansen

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Natural Resources Subcommittee

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Richard N. Barrett

Michael T. Fitzgerald

William J. Tietz, Jr.

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Diane V. Brandt

500 copies of this public document were published at an estimated cost of \$2.30 per copy, for a total cost of \$1,150.00, which includes \$1,150.00 for printing and \$.00 for distribution.

